

## Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 AGR-20

INT-08 CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DRC-01 /185 W

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R 190711Z SEP 74

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 4110

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

USMISSION OECD PARIS

AMCONSUL PORT MORESBY

AMCONSUL SYDNEY

AMEMBASSY WELLINGTON

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EGEN, EFIN, AS

SUBJECT: GOVERNMENT OF AUSTRALIA 1974-75 BUDGET

1. BEGIN SUMMARY. GOA 1974-75 BUDGET TABLED IN  
PARLIAMENT SEPTEMBER 17 AFTER MONTH'S DELAY OCCASIONED  
BY MAY ELECTION. MODERATELY EXPANSIONARY BUDGET WITH  
NOMINAL DOMESTIC SURPLUS OF \$A23 MILLION CONTEMPLATES  
INCREASES EXCEEDING 30 PCT. IN BOTH RECEIPTS AND  
EXPENDITURES. EXPENDITURE INCREASES CONCENTRATED IN  
SOCIAL PROGRAMS AND WELFARE EXPENDITURE. RECEIPT  
SIDE INCLUDES MODERATE TAX RELIEF TO LOW AND  
LOWER-MIDDLE INCOME GROUPS, INSTITUTION OF CAPITAL  
GAINS TAX AND SURTAX ON UNEARNED INCOME, REDUCTION  
IN EDUCATIONAL AND BUSINESS FRINGE DEDUCTIONS, REMOVAL  
OF MANY TAX BENEFITS FOR MINING INDUSTRY AND  
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SHARP INCREASES IN POSTAL, TELEPHONE AND OTHER

USER CHARGES. TAX REVISION AND INCREASED SOCIAL EXPENDITURE LEVELS DESIGNED TO ELICIT TRADE UNION ACQUIESCENCE IN VOLUNTARY WAGE RESTRAINTS DURING COMING YEAR. PROSPECT FOR SUCCESS OF THIS STRATEGY MODEST. END SUMMARY.

2. THIS IS CAPSULE REPORT ON GOA 1974-75 BUDGET TABLED SEPTEMBER 17. FOLLOWING SEPTELS WILL FURNISH MORE DETAILED ANALYSIS OF BUDGET AND ECONOMIC IMPACT, CHANGES IN TAXATION OF MINERALS INDUSTRY, ECONOMIC AID PROGRAM.

3. BUDGET CONTEMPLATES 32.4 PCT. INCREASE IN OUTLAYS TO TOTAL OF \$A16,274 MILLION AND INCREASE IN RECEIPTS BY 30 PCT. TO \$A15,704 MILLION. DOMESTIC BALANCE IS NOMINAL \$A23 MILLION SURPLUS DUE TO SUBSTANTIAL OVERSEAS EXPENDITURES. IN FACT, IN 24 HOURS SINCE BUDGET TABLED, GOVERNMENT DECISION TO ADVANCE \$A150 MILLION TO AUSTRALIAN WOOL CORPORATION TO SUPPORT WOOL PRICES AND ANNOUNCEMENT OF MILITARY PAY INCREASE SLIGHTLY EXCEEDING FIGURE IN BUDGET HAS CONVERTED PROGRAMMED DOMESTIC SURPLUS INTO ACTUAL DEFICIT. DESPITE PUBLISHED NOMINAL DOMESTIC SURPLUS AND MODEST DE FACTO DOMESTIC DEFICIT, BUDGET LIKELY TO BE MODERATELY EXPANSIONARY DUE TO TAX REVISION REDUCING RELATIVE TAX BURDEN OF LOWER INCOME TAXPAYERS AND SHARP INCREASES IN GOVERNMENT SERVICE EXPENDITURES.

4. EXPENDITURE INCREASES CONCENTRATED ON EDUCATION, HEALTH, URBAN REDEVELOPMENT AND WELFARE PAYMENTS. THIS REPRESENTS STRONG REAFFIRMATION AND FORWARD MOVEMENT IN UNDERLYING LABOR GOVERNMENT SOCIAL PROGRAMS, REVERSING PRIME MINISTER'S STATED INTENTION SHORTLY AFTER MAY ELECTION TO ENFORCE AUSTERE PUBLIC SPENDING LIMITS IN INTEREST ANTI-INFLATION PROGRAM.

5. DESPITE MODEST PERSONAL INCOME TAX RATE REDUCTIONS ON LOWER AND LOWER-MIDDLE INCOME GROUPS, INCOME TAX REVENUES STILL EXPECTED TO INCREASE 46 PCT. ON PREMISE OF AVERAGE 22.5 PCT. WAGE ADVANCE IN YEAR. LIMITED OFFICIAL USE

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IN ADDITION, REVENUE SIDE OF BUDGET INCLUDES INSTITUTION OF PERSONAL AND CORPORATE CAPITAL GAINS TAXES, 10 PCT. SURTAX RATE ON UNEARNED PERSONAL INCOME, SHARP INCREASES IN POSTAL, TELEPHONE AND AVIATION USER CHARGES, WITHDRAWAL OF NUMEROUS TAX ADVANTAGES FOR MINERALS INDUSTRY AND ELIMINATION OF TAX DEDUCTIONS ON EDUCATIONAL ALLOWANCES AND NUMEROUS BUSINESS FRINGE BENEFITS.

6. GOA STRATEGY IN THIS BUDGET WAS TO OFFER LABOR LOWER-INCOME TAX REDUCTION, EXPANDED GOVERNMENT SPENDING TO BOLSTER EMPLOYMENT AND INCREASED TAX LOAD ON UPPER INCOME GROUPS IN THE HOPE OF ELICITING IN RETURN SUITABLE WAGE RESTRAINT FROM UNIONS FOR COMING YEAR. THE ACTU SEVERAL WEEKS AGO SCHEDULED MEETING FOR SEPTEMBER 23 TO ASSESS THE BUDGET IN THIS LIGHT AND DECIDE WHAT COOPERATION IT WILL OFFER IN THIS CONTEXT. PENDING THE OUTCOME OF THAT MEETING WE BELIEVE THE CONCESSIONS OFFERED LABOR BY THE BUDGET, WHILE NUMEROUS, WILL PROVE INDIVIDUALLY AND COLLECTIVELY MODEST IN UNIONS' VIEW AND WE FOR THIS REASON DOUBT THAT THE BUDGET AS TABLED WILL EVOKE ANY SUBSTANTIAL OR PROLONGED WAGE RESTRAINT.

7. INITIAL BUSINESS REACTIONS TO THE BUDGET HAVE BEEN VERY NEGATIVE. THIS IS UNDERSTANDABLE IN VIEW OF THE NEW TAX LIABILITIES IMPOSED ON BUSINESS AND WITHDRAWAL OF PAST BENEFITS. OUR PRELIMINARY JUDGMENT HOWEVER IS THAT THE NEW CHARGES WHILE NUMEROUS, ARE IN RELATIVE TERMS MODEST AND THAT THE WIDELY PREDICTED DIRECT IMPACT OF THE BUDGET ON GENERAL BUSINESS INVESTMENT IS LIKELY TO BE RELATIVELY SMALL. IN THE LONG RUN, THE BUSINESS OUTLOOK FOR THE YEAR WILL BE DETERMINED BY THE OVERALL SUCCESS OR FAILURE OF THE EFFORT TO OBTAIN WAGE RESTRAINT, AND THE GOVERNMENT'S ACTIONS IN POLICY FIELDS OUTSIDE THE BUDGET INCLUDING CREDIT, TRADE AND MONETARY POLICY. THE SPECIAL QUESTION OF THE IMPACT OF THE NEW TAX MEASURES ON THE MINERALS INDUSTRY IS COVERED IN A FOLLOWING TELEGRAM.

8. OVERALL, WE BELIEVE THE IMPACT OF THIS BUDGET WILL LIMITED OFFICIAL USE

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BE LESS, FOR BETTER OR WORSE, THAN EITHER ITS ADMIRERS OR ITS CRITICS HAVE INITIALLY SUGGESTED. THE MUCH-HERALDED RESTRUCTURING OF INCOME TAX RATES IS MODEST, THE NEW CAPITAL GAINS BEING REALIZED AND THE 32 PCT. INCREASE IN GOVERNMENT EXPENDITURE LOOKS LESS IMPRESSIVE IN THE LIGH OF THE 20 PCT. RATE OF INFLATION WHICH APPEARS IN PROSPECT FOR THE COMING YEAR.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, EXPENDITURES, DEVELOPMENT PROGRAMS, TAX RELIEF, WAGE RATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 19 SEP 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** cunninfx  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974CANBER06158  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** cunninfx  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 01 MAY 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <01 MAY 2002 by ifshinsr>; APPROVED <07 MAR 2003 by cunninfx>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOVERNMENT OF AUSTRALIA 1974-75 BUDGET  
**TAGS:** EGEN, EFIN, AS  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005